

April 9, 2003

CHAIR
ARLENE SCHAFER
DIRECTOR
COSTA MESA
SANITARY DISTRICT

TO: Local Agency Formation Commission

VICE CHAIR
CHARLES V. SMITH
SUPERVISOR
FIRST DISTRICT

FROM: Executive Officer
Assistant Executive Officer

RANDAL J. BRESSETTE
COUNCILMAN
CITY OF LAGUNA HILLS

SUBJECT: Proposed Budget for Fiscal Year 2003-2004

PETER HERZOG
COUNCILMAN
CITY OF LAKE FOREST

Background

Government Code Section 56381(a) requires the Commission to adopt a proposed budget for all LAFCO operations by May 1st of each year. Following adoption, the proposed budget is distributed for review and comment to the Board of Supervisors, each city, the city selection committee, each independent special district and the independent special district selection committee. The final budget is required to be adopted by the Commission no later than June 15, 2003.

SUSAN WILSON
REPRESENTATIVE OF
GENERAL PUBLIC

THOMAS W. WILSON
SUPERVISOR
FIFTH DISTRICT

For your Commission's consideration, the proposed LAFCO budget for FY 2003-2004 is included as Exhibit A. A separate proposed Unincorporated Islands Program budget is included as Exhibit B. LAFCO's Executive Committee (Chair Schafer, Vice Chair Smith and Past Chair Herzog) has reviewed the budget and provided suggestions which were incorporated into the proposed FY 2003-2004 budget.

JOHN B. WITHERS
DIRECTOR
IRVINE RANCH WATER
DISTRICT

ALTERNATE
ROBERT BOUER
MAYOR
CITY OF LAGUNA WOODS

Increasing LAFCO Costs/Challenges for FY 2003-2004

FY 2003-2004 will be the third year that LAFCO has operated as a completely independent agency. Since July 2001, the Commission has been solely responsible for approving a budget for all LAFCO operations. Funding for LAFCO is provided in equal proportion by cities, special districts and the County. Prior to July 2001, the County provided all funding for LAFCO operations.

ALTERNATE
RHONDA McCUNE
REPRESENTATIVE OF
GENERAL PUBLIC

ALTERNATE
JAMES W. SILVA
SUPERVISOR
SECOND DISTRICT

FY 2003-2004 brings a number of significant challenges to LAFCO. The Commission faces increasing health care and retirement costs for staff, higher liability insurance costs for Commissioners and an increased project work load due to additional programs mandated by the State. These challenges come at a time when LAFCO is scheduled to lose two Policy Analysts, both of which are two-year, limited-term positions funded by the County to assist LAFCO staff with the Unincorporated Islands Program.

ALTERNATE
CHARLEY WILSON
DIRECTOR
SANTA MARGARITA
WATER DISTRICT

DANA M. SMITH
EXECUTIVE OFFICER

Rising Costs for Health Care, Retirement and Insurance

The chart, below, provides your Commission with a comparison of rising health care, retirement and liability insurance costs for Fiscal Years 2001-2002, 2002-2003 and 2003-2004. The increase in retirement costs is largely due to a change in County policy last year in which a significant portion of administrative management employees' retirement contributions was shifted from the employee to the employer. Increasing costs for employee health care and liability/crime insurance coverage for staff and Commissioners are largely due to overall cost increases within the health care and insurance industries.

	<i>FY 01-02</i>	<i>FY 02-03</i>	<i>FY 03-04</i>
Retirement	\$12,739	\$54,636	\$60,682
Benefits/Insurance	\$48,711	\$50,350	\$65,449
Liability/Crime	\$16,266	\$26,518	\$41,190

Additional State-Mandated Programs for LAFCO

As your Commission is aware, on January 1, 2001, the laws governing LAFCOs were comprehensively rewritten as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code Section 56000 et seq.). One of the most significant changes to LAFCO's enabling act is a new statutory mandate that LAFCO:

- Update spheres of influence for all agencies every five years; and
- Conduct a "service review" of the municipal services provided in the county for purposes of conducting sphere updates.

At your Commission's March 12, 2003 regular meeting, contracts with two professional consulting firms, Moore Iacofano Goltsman, Inc. and The Keith Companies, were approved for Phase One of the Municipal Service Review ("MSR") program. Phase One of the MSR program will consist of a series of interviews with public and private stakeholders in Orange County to gather information on municipal service and infrastructure issues related to growth and development. Findings and analysis from the stakeholder interviews will serve as the basis for implementation of two initial MSR "prototypes" in Phase Two of the MSR Program. The proposed FY 03-04 budget includes \$100,000 for completion of the first two municipal service reviews.

Unincorporated Islands Program – LAFCO to Fund Third Year of Program

On June 14, 2000, LAFCO approved a three-year work program and resource plan for the annexation of 50 small islands. The Unincorporated Islands Program has consistently been identified by your Commission as one its highest priority projects. Now in its third year, the Unincorporated Islands Program has resulted in the successful annexation of nine small islands

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with an additional 15 island annexations scheduled for completion by the summer of 2003. The original Islands work program and resource plan, developed in concert with the County, requires that the initial two years of the Islands Program be funded by the County. The Commission is obligated to fund the third year of the Program.

Fiscal Year 2003-2004 Proposed Budget Overview

Agency Contributions Stable for FY 2003-2004

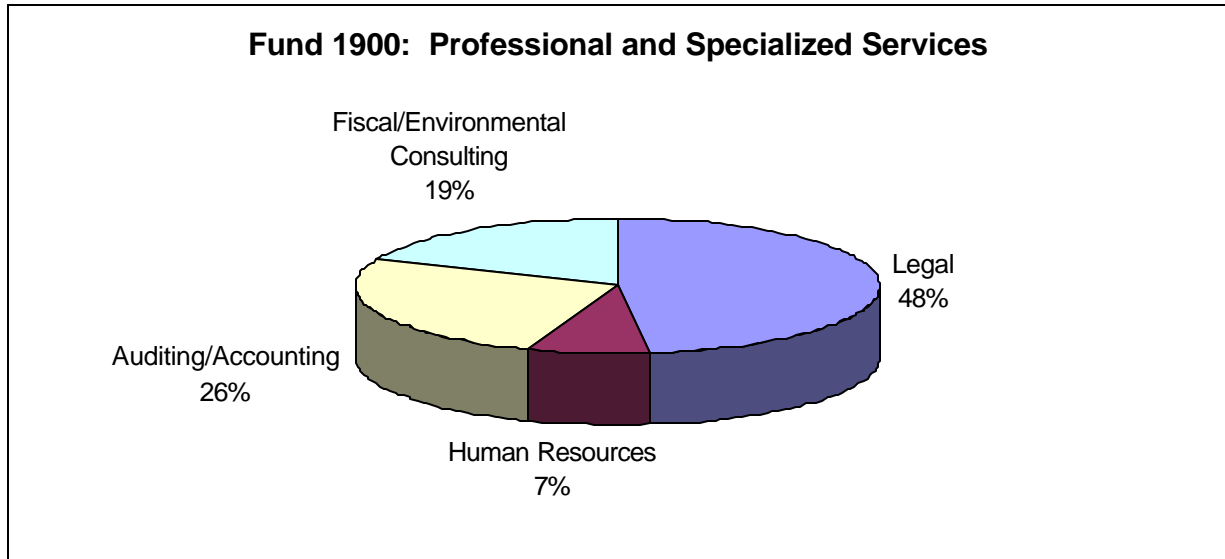
Despite the increased costs and responsibilities outlined above, the proposed FY 2003-2004 LAFCO budget is static for our funding agencies, with expenditures (less revenues) totaling \$930,920. The County, cities and special districts will equally divide this cost, each paying \$310,306. This is equivalent to the funding agencies' contributions to LAFCO for both FY 2001-2002 and FY 2002-2003. It is also consistent with the Executive Committee's direction to staff to not increase funding agency contributions for FY 2003-2004 above current year levels.

Individual city and special district contributions for the proposed FY 2003-2004 have been calculated by staff using the distribution formulas previously adopted by the Independent Special Districts of Orange County and the City Selection Committee. City and special district contribution summaries are included as Exhibits D and E, respectively.

Staff developed a budget which is static for our funding agencies for the third consecutive fiscal year despite higher costs and additional State mandated programs required for FY 2003-2004. This is possible due to revenues from FY 02-03, specifically moneys from the Talega annexation trust account. The Talega trust account was set up by the project proponent to reimburse LAFCO staff for extraordinary staff time and costs in processing a series of annexations to the City of San Clemente over the last three years. That project will close out by the end of the fiscal year.

Professional and Specialized Services Costs

The "Professional and Specialized Services" category is the largest fund in the services and supply account totaling \$136,200. It includes bookkeeping and accounting/auditing services, and contracted services for legal counsel, human resources, facilitation and fiscal/environmental analysis. The percentage and distribution of these costs are depicted on the chart below:



Additional Policy Analyst Position Funded

Sufficient funds have been included in the proposed FY 2003-2004 budget to continue to fund one additional policy analyst position. One-half of this position is proposed to be funded out of the regular LAFCO operating budget, with the remaining portion proposed to be funded out of the Islands Program budget. This position will partially offset the scheduled loss of two LAFCO policy analyst positions.

Unincorporated Islands Program Proposed Budget

The proposed Unincorporated Islands Program budget is included as Exhibit B. As discussed previously, staff anticipates completing annexation proceedings for 24 small islands by the end of summer 2003. The remaining 26 small islands, however, present some of the most challenging issues for LAFCO, County and city staffs. In many cases, these islands have significant infrastructure deficiencies and/or unique land use considerations which will require increased staff time and additional legal and fiscal analysis.

Realistically, the Islands Program will likely need to be extended beyond FY 2003-2004. Fortunately, through conservative spending by LAFCO staff and the prudent use of consultant services, staff was able to maintain a projected Islands fund balance for FY 2002-2003 of \$149,915. The proposed FY 03-04 Islands Budget utilizes \$122,579 from the FY 2002-2003 Islands fund balance to supplement third year funding for the Islands Program. The remaining portion of the FY 02-03 Islands fund balance has been reserved for future FY 2004-2005 Islands costs if needed.

Conclusion

The proposed LAFCO budget for FY 2003-2004 is consistent with the guiding principles outlined by the Executive Committee. The proposed budget is static in its funding demands by maintaining level funding contributions for our funding agencies and addresses new State-mandated work programs.

Recommendation

The Executive Officer recommends that the Commission:

1. Adopt the Proposed FY 2003-2004 Local Agency Formation Commission budget, and direct the Executive Officer to distribute the proposed budget for review and comment to the Board of Supervisors, each city, the city selection committee, each independent special district and the independent special district selection committee.

Respectfully submitted,

DANA M. SMITH

BOB ALDRICH

Exhibits:

- A – Proposed FY 2003/04 LAFCO Budget
- B - Proposed Unincorporated Islands Budget
- C - LAFCO Expenditure Categories
- D - Projected City Contributions
- E - Projected Special District Contributions